

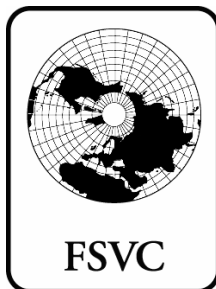
FINANCIAL SERVICES VOLUNTEER CORPS



Closeout Report
on
The Financial Services Technical Assistance Project
in Bosnia Herzegovina
for
the U. S. Agency for International Development (USAID)
Cooperative Agreement 168-A-00-02-00113-00

July 2002 – September 2006

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**Program Activity in Bosnia Herzegovina
Financial Services Technical Assistance Project
July 2002 – September 2006**

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EXECUTIVE SUMMARY

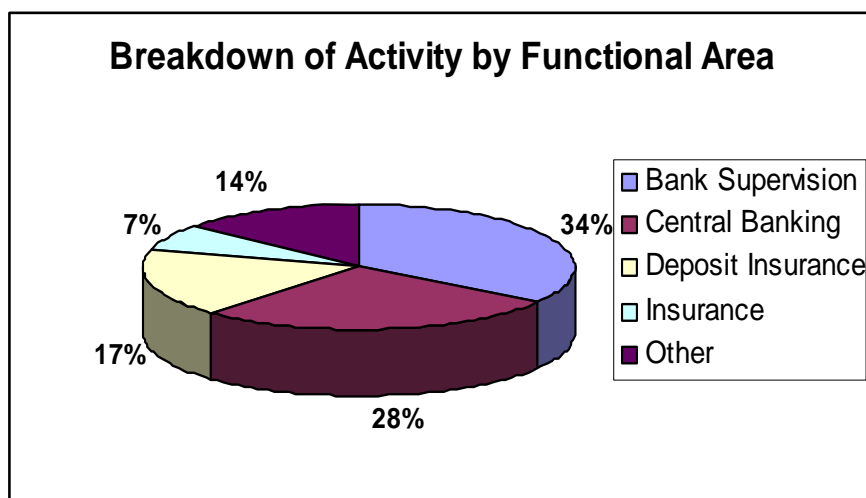
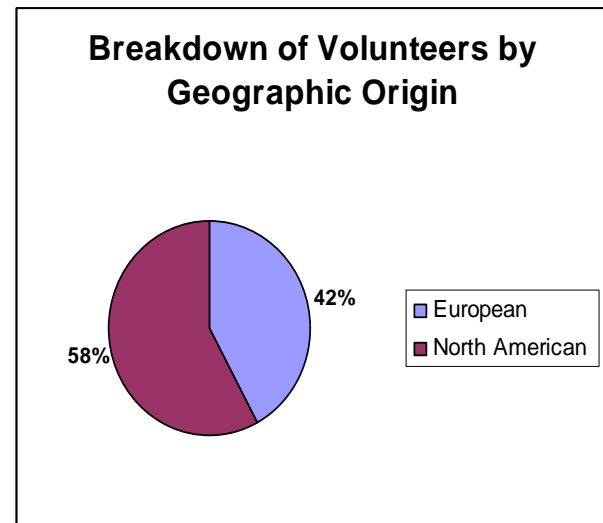
On September 29th 2006, FSVC concluded its four-year program of technical assistance in Bosnia Herzegovina. This program of assistance was made possible by a cooperative agreement with USAID signed in 2002. This report provides details of the achievements under this agreement, which was the first-ever cooperative agreement in the history of the USAID Economic Growth Office in Bosnia.

Starting with some key figures, FSVC completed a total of **33 projects**, utilizing the services of **64 Volunteers** from North America and Europe. These individuals donated over **6,450 hours** of time to these activities, equivalent to over **800 days of service**. Of this, **170 days** were spent delivering technical assistance to Bosnian counterparts in-country, equivalent to **nearly 6 months of technical assistance**.

The total value of donated Volunteer services amounted to more than **\$ 2.51 million**, exceeding the amount promised under the cooperative agreement by **\$146,000**.

Bosnian counterparts provided over **\$5,000 in cost sharing** to realize this program of assistance.

In terms of operating budgets, FSVC received \$1.098 million in funding from USAID over the 4 year program, resulting in an **average annual budget of \$260,000**.



The core of activities has been concentrated in **bank supervision, central banking, and deposit insurance**. In addition, FSVC responded to a number of ad hoc requests from USAID to conduct assessments or undertake research on specific subjects.

Throughout the period of performance, FSVC actively worked with counterparts to structure demand-driven projects based on prioritized needs. While short-term in nature, these projects were appropriately targeted to address specific technical issues in a practical, efficient and effective manner. Key to FSVC's success was its unique ability to engage Volunteers from North America, the European Union or Southeast Europe, depending on the scope and objectives of the assignment.

The following key successes were achieved as a direct result of FSVC technical assistance:

- **The Deposit Insurance Agency developed a financial model to forecast deposit insurance fund growth and sustainability.** The model was used as justification for a 5 million KM capital contribution by the German government to the DIA in 2003. It was subsequently used to support a policy decision to increase the deposit protection limit from 5,000 to 7,500 BAM in 2005.
- **The Central Bank of Bosnia Herzegovina has adopted a comprehensive Disaster Recovery / Business Continuity Plan in 2006.** The lack of a comprehensive plan was noted as a significant gap in the risk management system of the central bank by an IMF Safeguards Assessment. The plan is prioritized in order of the most vital functions provided by the central bank and provides a detailed plan for restoring these functions in the least amount of time in the event of a natural or man-made disaster.
- **The Central Bank of Bosnia Herzegovina completed the first-ever scientific estimate of the size of the underground economy of Bosnia Herzegovina in 2005.** Prior to the issuance of the assessment, only anecdotal evidence existed regarding the size and composition of the non-observed economy. The final report indicated that nearly 60% of GDP is non-observed due to poor statistics, tax evasion and illegal activity. The final report has been quoted by the World Bank, IMF and local media and has now become the definitive estimate of informal activity.
- **The Banking Agencies have become certified in International Accounting Standards and International Financial Reporting Standards.** In cooperation with the Sarajevo Graduate School of Business (SGSB), FSVC conducted a three-part certification program in the most relevant IAS/IFRS related to the financial sector. Participants achieved certification upon completion of a comprehensive examination. Since IAS was introduced in Bosnia in 2006, their application has been problematic for bank regulators. The certification program helped demystify the changes brought on by the new standards and will enable regulators to adapt their financial reporting requirements to the new standards.
- **USAID obtained a comprehensive assessment of the insurance market and actuarial profession of Bosnia Herzegovina.** The report highlighted the problems in the insurance market that will most likely contribute to its future instability. The report was subsequently used by the European Commission to help focus a multi-year technical assistance effort on the most important issues and training needs.
- **The Banking Agencies obtained comprehensive training in consolidated bank supervision.** The training was provided by a senior bank supervisor from the central bank

of Italy and provided a framework for analyzing the risks of large banking groups. Given that Italian capital now dominates the Bosnian banking system, the linkages created by the training event helped deepen relations between bank regulators on both sides of the Adriatic and will eventually lead to joint on-site supervision exercises in the future.

- **Then Central Bank obtained an assessment of its national payments system for compliance with Basel Core Principles.** The assessment showed that the payments system is largely compliant with international standards, and helped facilitate a World Bank / IMF FSAP assessment in 2006.

In addition, FSVC provided important assessments related to the financial sustainability of the Sarajevo Graduate School of Business and to the legal and policy framework of the Bosnian labor market. Both of these assessments were utilized by USAID to launch major multi-year technical assistance projects in Bosnia that are currently underway.

Brief descriptions of Program Objectives and Highlights follow. Appendices A and B respectively contain comprehensive lists of counterpart institutions and those that provided support through the provision of Volunteers or by hosting visiting delegates. Summaries of all projects conducted under this agreement can be found in Appendix C. Appendix D contains a financial summary of overall expenditures.

**PROGRAM ACTIVITY IN BOSNIA
July 2002- September 2006****SUMMARY**

From July 2002 through September 2006, FSVC delivered technical assistance to Bosnia via its cooperative agreement with the USAID mission in Bosnia. Over this period, 33 projects were undertaken in three main areas: central banking, bank supervision and deposit insurance. In addition, FSVC conducted expert assessments for USAID in several areas including public sector auditing, the underground economy and the insurance market. FSVC coordinated its efforts with USAID and other technical assistance providers to productively and successfully weave its programs into the larger fabric of multilateral and bilateral assistance programs in Bosnia.

FSVC's extensive experience and history in the region coupled with its traditional focus on financial sector reform enabled it to work in close cooperation with key financial sector institutions responsible for propelling economic reforms forward. Two unique aspects of the program included the use of regional counterparts as technical assistance providers and the increased recruitment and use of European Volunteers in response to the requests and needs of counterpart institutions. Leveraging its decade-long relationship with a network of professionals from Central and Eastern Europe, FSVC recruited experts from institutions such as the Polish and Croatian National Banks to volunteer for FSVC assignments in Bosnia. In the final years of the Bosnia program, European individuals accounted for roughly 50 percent of the volunteers supporting FSVC's program activity. These relationships will continue to develop and deepen long after the conclusion of the Bosnia program. Further, this willingness and enthusiasm on the part of Central and East European countries to contribute their time and resources is a testament to the assistance provided by USAID prior to EU accession and a recognition that these institutions can now do their part by assuming roles as technical assistance providers.

FSVC achieved significant results with its USAID funding for financial sector activity in Bosnia. Through a sustained effort and a unique combination of highly targeted short-term projects delivered by expert volunteers, FSVC has been an important component in the effort to uphold the transformation of the financial sector in Bosnia. Some specific examples of FSVC successes in Bosnia, organized by program area, are highlighted below.

PROGRAM OBJECTIVES

FSVC has consistently supported USAID's strategic objective 1.3: Accelerated Development and Growth of the Private Sector. Under this objective, FSVC has supported the following Intermediate Results:

- IR 1.3.1: Regulations and Policies that Foster Private Sector Development
- IR 1.3.2: A Market-Driven and Properly Regulated Financial Services Sector
- IR 1.3.3: Small and Medium Enterprises that Effectively Compete in a Market Economy

In support of this strategic objective, FSVC's goals for its program in Bosnia have been:

- To support the development of a sound, well-regulated and efficient financial system in an effort to satisfy the credit needs of the private sector and to stimulate growth of small and medium size enterprises.
- To improve the technical and institutional capacity of entities responsible for financial sector supervision and to increase their accountability, self-reliance and independence over time.

FSVC has accomplished these broad objectives by addressing specific issues and demand driven needs expressed by counterpart institutions. FSVC projects have also helped counterparts achieve specific objectives related to EU accession and the adoption of international standards. Technical assistance focused on supporting key institutions in these endeavors through the development and execution of highly targeted projects with specific objectives and performance criteria.

PROGRAM HIGHLIGHTS (by program area)

Bank Supervision:

The primary goal of this component was to support the institutional development of the Banking Agencies of the Federation and Republika Srpska. Volunteer assignments developed the capacity of bank examiners to conduct risk-based on-site and off-site supervision of banks. FSVC assistance targeted specific weaknesses in areas such as consolidated bank supervision and operational risk (IT risk) supervision. Training in the area of International Accounting and Financial Reporting Standards (IAS / IFRS) was designed to help the bank regulators to understand changes to bank accounting rules introduced in 2006.

While the Banking Agencies have made tremendous progress over the last ten years to develop appropriate regulatory regimes to supervise credit risk, the rapidly evolving banking sector is going to require a more comprehensive approach to bank supervision. In particular, the Banking Agencies will need to introduce specific policies related to market risk and country risk as well as guidelines for IT risk in banks. In addition, a new draft Banking Law, once adopted, will introduce specific measures related to consolidated supervision. The Banking Agencies will need additional technical assistance to implement these measures in a comprehensive manner. Threats to the independence of the Banking Agencies will remain in the future, unless they are merged under the central bank.

FSVC has achieved a number of notable successes in the area of bank supervision. As a result of FSVC technical assistance:

- **The Banking Agencies have become certified in International Accounting Standards and International Financial Reporting Standards.** The Law on Banks requires that commercial banks and their subsidiaries maintain their accounts in accordance with IAS. However, many standards related to the financial sector are complex and difficult to apply in practice. For this reason, when IAS were adopted in full in Bosnia in 2006, their application has been problematic for bank regulators. In cooperation with the Sarajevo

Graduate School of Business (SGSB), FSVC conducted a three-part certification program in the most relevant IAS/IFRS related to the financial sector. Participants achieved certification upon completion of a comprehensive examination. The certification program helped demystify the changes brought on by the new standards and will enable regulators to adapt their financial reporting requirements to the new standards. The Banking Agencies are using this knowledge to clarify and further elaborate their guidance to banks for the application of IAS.

- **The Banking Agencies obtained comprehensive training in consolidated bank supervision.** The non-bank financial sector, in particular insurance, leasing and capital markets are steadily growing in Bosnia. A number of banks are offering insurance, leasing and brokerage services to customers through their subsidiaries and affiliates. For this reason, the Banking Agencies will need to monitor the potential risk that these subsidiaries pose to their parent banks. The FSVC training in consolidated supervision was provided by a senior bank supervisor from the central bank of Italy and provided a framework for analyzing the risks of large banking groups. Given that Italian capital now dominates the banking system, the linkages created by the training event helped solidify relations between bank regulators on both sides of the Adriatic, and will eventually lead to joint on-site supervision exercises in the future. A new Banking Law is being drafted that will give the Banking Agencies additional authority in the field of consolidated supervision. Once this law is adopted, the Banking Agencies will be able to implement in full the training provided by FSVC.
- **The Banking Agencies have started the process of examining IT risk in the banking system.** FSVC engaged volunteers from the Croatian National Bank to introduce the Banking Agencies to the importance of IT risk in commercial banks. This was followed up by more advanced on-the-job training provided by a former bank examiner from Germany. The seriousness of IT risk cannot be understated given the extent to which commercial banks rely on technology for automating their operations. Several banks already offer internet banking to retail and corporate customers, which are potentially vulnerable to hackers or malicious code. In addition, password security is extremely important for preventing fraud and other forms of white collar crime. The Banking Agencies do not yet have a fully developed supervisor regime for IT risk, but they have already begun to monitor this risk as part of their regular on-site examinations.

Central Banking

The primary goal of this component was to support the institutional development of the Central Bank of Bosnia Herzegovina and its efforts to maintain an appropriate enabling environment for banks to channel credit to the private sector. By preserving macroeconomic stability, the CBBH also creates the proper conditions for foreign direct investment in Bosnia. Other key public goods provided by the Central Bank include operating a national payments system and providing research and important data on the macro-economy and financial sector. All of these services support directly or indirectly the enabling environment for small and medium enterprises and were therefore an important target for FSVC support. Assistance programs addressed institutional development needs and focused on capacity building of key central bank staff.

As a result of FSVC technical assistance:

- **The Central Bank of Bosnia Herzegovina has adopted a comprehensive Disaster Recovery / Business Continuity Plan in 2006.** This multi-phase program included an initial assessment of the current state of preparedness of the CBBH for recovering from a disaster. This was followed up by a study tour by key Central Bank staff to the National Bank of Poland to study its Disaster Recovery Plan (DRP). Between the second and third phase the CBBH, with extensive support from FSVC staff, developed the draft DRP. In the final stage, the Volunteers returned to review and text the draft DRP, which was eventually adopted by the Board of the CBBH in the first quarter of 2006. The lack of a comprehensive plan was noted as a significant gap in the risk management system of the central bank by the IMF following a so-called Safeguards Assessment. The final document is prioritized in order of the most vital functions provided by the central bank and provides a detailed, systematic plan for restoring these functions in the least amount of time in the event of a natural or man-made disaster.

- **The Central Bank of Bosnia Herzegovina completed the first-ever scientific estimate of the size of the underground economy of Bosnia Herzegovina in 2005.** At the request of USAID, and in cooperation with the Research Department of the CBBH, FSVC volunteers undertook a scientific assessment of the underground economy. Prior to the issuance of the assessment, only anecdotal evidence existed regarding the size and composition of the so-called non-observed economy (“NOE”).



Volunteers Marije Piirsild and Roberto Dell'anno with Program Officer Emil Okanovic in front of the CBBH

The volunteers used an OECD-recognized methodology to conduct the assessment, which provided data on NOE due to statistical error, informal economic activity as well as black market activity. The final report indicated that nearly 60% of GDP is non-observed due to poor statistics, tax evasion and illegal activity. The final report has been quoted by the World Bank, IMF and local media and has now become the definitive measure of informal activity. It was also published on the USAID website.

- **The Central Bank obtained an assessment of its national payments system for compliance with Basel Core Principles.** The assessment was carried out by an American payments system expert with previous experience in Bosnia Herzegovina. The volunteer helped to educate CBBH staff on the Basle Core Principles Assessment methodology and identify areas where the CBBH needed improvement. Overall, the assessment demonstrated that the national payments system is largely compliant with international standards and helped facilitate a World Bank / IMF FSAP assessment in 2006.

Deposit Insurance

The goal of this assistance was to develop the institutional capacity of the Deposit Insurance Agency (DIA) of Bosnia Herzegovina to help ensure its long-term financial and operational self-sufficiency. The DIA was one of the first financial regulatory agencies to be established at the state-level and it plays an important role in securing the security and stability of the banking system. The DIA is credited with helping to attract deposits to the formal banking system and has played a catalytic role in consolidating the banking sector. FSVC assistance was focused primarily on enabling the DIA to track its financial sustainability and formulate logical and well-founded policy decisions based on rigorous financial analysis. DIA staff also participated in specific training events organized by FSVC in cooperation with the Banking Agencies and the Central Bank.

As a result of FSVC technical assistance:

- **The Deposit Insurance Agency developed a financial model to forecast deposit insurance fund growth and sustainability.** An American investment banker developed a financial model to track the growth of the deposit insurance fund over time as well as determine the probability that the fund may incur significant losses. The model was used as justification for a 5 million KM capital contribution by the German government to the DIA in 2003. The volunteer made a return trip to Bosnia approximately one year later to train the staff of the DIA how



Volunteer Peter Hand with FSVC Regional Director Anthony Randazzo and Resident DIA Advisor Rainer Mueller

to update the model for ongoing management purposes. It was subsequently used to support a policy decision to increase the coverage limit from 5,000 to 7,500 BAM in 2005.

Expert Assessments for USAID

In response to specific requests from the USAID mission in Sarajevo, FSVC mobilized expert volunteers to conduct specialized assessments in a number of areas including, insurance, public sector auditing and the grey economy. Assessments were also conducted on the financial and operational sustainability of the Bank Supervision Agencies as well as the Deposit Insurance Agencies. Often, these assessments were undertaken to help the USAID mission raise awareness about an important economic development issue or to determine the scope of a specific technical assistance intervention. In more than one instance, these assessments provided valuable input during the design and implementation phase of USAID or other donor-funded projects. In the case of the Banking Agencies and Deposit Insurance Agency, the assessments were used to help design USAID's "exit strategy" from the financial sector.

As a result of FSVC technical assistance:

- **USAID obtained objective assessments of the operational and financial sustainability of the Bank Supervision Agencies and the Deposit Insurance Agency.** The reports pointed out progress made to date in the institutional development of these organizations and provided a road map of future technical assistance needs. The team of volunteers also examined how the Agencies finance their operations and recommended changes to their organizational structure that would facilitate their long-run independence.

USAID used the reports to develop its medium term priorities and its “exit strategy” for the financial sector, which helped to focus its technical assistance interventions.



Volunteers (left to right) Keith Sieibold, Robert Porter and Geary Vance with Governor Peter Nicholl

- **USAID obtained a comprehensive assessment of the insurance market and actuarial profession of Bosnia Herzegovina.** The report highlighted the problems in the insurance market that will most likely contribute to its future instability. The report was used by the European Commission to help focus a multi-year technical assistance effort on the most important issues and training needs.

PROGRAM ACTIVITY PRIOR TO 2002

1997- 2001

SUMMARY

Prior to receiving a cooperative agreement for Bosnia Herzegovina in 2002, FSVC provided assistance to the Bosnian financial sector via a number of projects funded either by other USAID implementation partners working in the financial sector or financed directly by regional funding provided by USAID. Between 1997 and 2002, FSVC carried out 5 projects in Bosnia in response to specific requests.

Key Results**As a result of FSVC assistance between 1997 and 2001:**

- **The Banking Agencies of the Federation and Republika Srpska were trained in white collar crime investigation and detection techniques.** The course was organized and taught in cooperation with USAID funded advisors from Bearingpoint. FSVC Volunteers were recruited from the Federal Reserve Bank of Richmond and from the US Customs Service.
- **FSVC Volunteers trained local commercial banks on how to organize and manage a modern Bankers Association.** This seminar, taught in 1997 in cooperation with the USAID Business Finance program, was the first time a USAID project brought commercial bankers from the Federation and the Republika Srpska together to discuss the formation of a state-level Bankers Association. Given that memories of the war were still very fresh in 1997, the fact that the bankers traveled across entity lines for a meeting was highly significant. The training presented to participants the structure and role of a bankers association in a developed market economy.
- **In Cooperation with the USAID Macroeconomic Technical Assistance Project, FSVC organized a seminar on the elements of a modern payments system.** The seminar was taught by volunteers sourced from the U.S. Federal Reserve, the Croatian National Bank, and a major U.S. commercial bank, and it helped lay the groundwork for a major overhaul of the Bosnian payments system financed by USAID.

APPENDIX A

List of Counterpart Institutions

Bosnia and Herzegovina Statistics Agency
Central Bank of Bosnia & Herzegovina
Federation Association of Actuaries
Federation Banking Agency
Federation Citizens Association for Public Finance
Federation Ministry of Finance
Federation Insurance Supervision Agency
Parliamentary Assembly of Bosnia and Herzegovina
Republika Srpska Association of Accountants and Auditors
Republika Srpska Banking Agency
Southeast European Partnership on Accountancy Development (SEEPAD)
State Deposit Insurance Agency of Bosnia and Herzegovina
Supreme Audit Institution of Bosnia Herzegovina
USAID - Mission in Bosnia and Herzegovina

APPENDIX B

List of FSVC Support Institutions

Allianz Insurance, Croatia
American Modern Insurance Group
American University in Bulgaria
Auctor Securities, Croatia
Banca d'Italia
Banco de Espana
Bank of Albania
Bank of Slovenia
Barclays Global Investors, United States
Bingham McCutchen LLP, United States
Bulgarian National Bank
Central Bank of Montenegro
Croatian National Bank
Czech National Bank
Deloitte, Touche, LLP, United States
DePaul University
Fernelius Banking Consultants, United States
Global Capital Finance Americas LLC, United States
IBM Corporation, United States
Insurance Supervisory Agency of Slovenia
Estonian Ministry of Finance
National Bank of Poland
Nowy Sacz School of Business, Poland
PricewaterhouseCoopers, United Kingdom
Government of State of Vermont – Internal Audit
Tennessee Department of Financial Institutions
University of Economics in Bratislava
University of Illinois College of Law
University of Maine
University of Pittsburg
Verizon

APPENDIX C

Program Activity in Bosnia Herzegovina
Financial Sector Technical Assistance Project

2002 – 2006

SUMMARY OF INDIVIDUAL PROJECTS
(Years in Reverse Chronological Order)**2006****3rd Quarter****1. Project Name:**

Certificate Program in IAS and IFRS (Module II)

Counterpart Institution:

Banking Supervision Agencies of Bosnia and Herzegovina

Implementation Date:

September 4 – 6, 2006

Description:

FSVC engaged a capital markets specialist from a global accounting and auditing firm to teach a two-day segment on the application of IFRS 3. The Volunteer provided a thorough introduction to the accounting standard and used examples from real life to illustrate how it is applied in practice. The training was complemented by additional segments taught by professors from the Sarajevo Graduate School of Business, who presented the topics of IAS 27 and 28.

Volunteer:

Sherif Sakr, Manager, Global Capital Markets Group, Deloitte, Touche, LLP

Results:

Building on the success of the previous modules, the participants were able to greatly increase their understanding of this complex accounting standard. Given that IAS was introduced in Bosnia this year, the Banking Agencies are heavily engaged in ensuring that standards are understood and properly implemented in the banking system. The training made the Agencies realize that they will need to adjust their regulations to account for these new standards. Overall, the participants expressed their satisfaction with the Volunteer's presentations and greatly appreciated his ability to speak from experience. Ultimately, this training will help ensure effective regulatory oversight of financial reporting in the banking industry of Bosnia.

2nd Quarter**2. Project Name:**

Certificate Program in IAS and IFRS (Module I)

Counterpart Institution:

FBiH Banking Agency, Republika Srpska Banking Agency

Implementation Date:

June 27 – 30, 2006

Description:

FSVC engaged a capital markets specialist from a global accounting and auditing firm to teach a three-day segment on the application of IAS 39. The Volunteer provided a thorough introduction to the accounting standard and used examples from real life to illustrate how it is applied in practice.

Volunteer:

Sherif Sakr, Manager, Global Capital Markets Group, Deloitte, Touche, LLP

Results:

Building on the success of the prerequisite training in Financial Instruments, the participants were able to greatly increase their understanding of this complex accounting standard. Given that IAS was introduced in Bosnia this year, the Banking Agencies are responsible for understanding and supervising their application in the banking system. The training provoked an important discussion on how to treat the use of derivatives, which are gradually being introduced by certain banking groups this year. The training also made the Agencies realize that they will need to adjust their regulations on the valuation of bank assets. Overall, the participants expressed their satisfaction with the Volunteer's presentations and greatly appreciated his ability to speak from experience.

3. Project Name:

Development of Risk-Based Internal Audit Assessment Methodology

Counterpart Institution:

Central Bank of Bosnia & Herzegovina

Implementation Date:

June 4 – 16, 2006

Description:

To address concerns raised by a recent IMF Safeguards Assessment, the CBBH requested technical assistance from FSVC for the development of a systematic risk-based internal audit assessment methodology. This methodology will help internal auditors not only to identify business activities that pose the highest risk to the Central Bank, but also to measure, monitor and control the level of risk arising from those business activities. FSVC arranged for two Internal Audit experts to review their draft risk assessment methodology and provide recommendations on how to make it more robust. A final written report of recommendations was delivered to the Office of Internal Audit (OIA) as were examples of assessment methodologies used in other countries.

Volunteers:

Dariusz Daniluk, Director, Internal Audit Department, National Bank of Poland
Lewis Burnham, Certified Public Accountant and member of the AICPA

Results:

This project primarily served to confirm the approach of the OIA to their risk assessment methodology. The Volunteers discussed the draft risk assessment methodology point by point with the OIA and provided feedback on its structure, content and approach. The Volunteers helped to define the key business processes and sub-processes that will be the subject of their risk assessment work. They also suggested that OIA simplify the levels of risk (from 5 to 3) in line with ECB standards, and some additional risk factors were added to the methodology based on their recommendations. The main goal of OIA is to have the revised methodology approved by the Board of the CBBH. For this reason, the timing of the consultations was very helpful. OIA is

currently translating the final volunteer report, which will be on the agenda of the next Audit Committee meeting in July. OIA hopes to have the methodology approved before the end of 2006.

4. Project Name:

Conference: The Prospects for Continued Economic Integration & Development of Southeastern Europe

Counterpart Institution:

Parliamentary Assembly of Bosnia and Herzegovina

Implementation Date:

June 7 – 9, 2006

Description:

The Parliamentary Assembly of Bosnia and Herzegovina (BiH), as a member of the European Center for Parliamentary Research and Documentation (ECPRD), organized a general meeting of the ECPRD Macroeconomic Research Working Group to discuss the economic situation and prospects of BiH and Southeastern Europe for integration into the EU. As a potential EU candidate, Bosnia and other regional countries have started negotiations for a Stabilization and Association agreement with the EU. This general meeting consequently addressed major structural and institutional reforms that potential EU candidate countries needed to implement in the fields of healthcare, pensions, fiscal governance, trade regimes and human resource development. At the request of USAID and the ECPRD, FSVC engaged an investment banker with extensive experience in the region to deliver a presentation on “Prospects for Continued Economic Integration and Development of Southeastern Europe.”

Since the Volunteer is the owner and manager of an investment house in Croatia, he was asked by FSVC to deliver a short presentation to members of the local Brokers Association on the subject of risk management and internal controls. The half-day presentation was informal and interactive, and enabled local brokers to learn more about how to conduct internal controls in a small brokerage house.

Volunteer:

Michael Glazer, Director, Auctor Securities, Croatia

Results:

This conference helped to raise awareness among ECPRD members of the institutional and structural reforms that countries in Southeastern Europe have to implement in the process of acceding to the EU. The Volunteer highlighted the obstacles and challenges presented by these reforms and discussed the need for countries in the region to consolidate their political goals, improve infrastructure and further develop the management skills of key business leaders.

The consultations with the broker-dealer community on the subject of internal audit will help to strengthen compliance with securities regulations to ensure a safer, more reliable capital market.

5. Project Name:

Training in Financial Instruments (requisite for IAS/IFRS training)

Counterpart Institutions:

FBiH Banking Agency

Republika Srpska Banking Agency

Implementation Date:

May 14 – 16, 2006

Description:

FSVC recruited an experienced pension fund manager from Croatia to teach one segment of this prerequisite course on financial instruments. The Volunteer was able to lecture in the local language and give examples from his experiences in a neighboring country, which greatly facilitated the transfer of knowledge. The presentations focused on how fixed income instruments and derivatives are priced and traded.

Volunteer:

Dinko Novoselec, CFA, Chief Executive Officer, Allianz ZB Mandatory Pension Fund

Results:

Certain banking groups are just now starting to introduce swaps and forwards, so the training was very timely. At the beginning of the seminar, the level of understanding of financial instruments among the participants was at a very low level. As a result of the Volunteer's practical experience, the seminar was able to address the practical challenges which the participants are facing day-to-day. The Federal Banking agencies indicated that they were impressed with the quality of the Volunteer's presentation and that, in particular, they appreciated the volunteer's ability to present the topic in a way that was clear and easy to understand.

6. Project Name:

SEEPAD Ethics and Quality Control Seminar & General Assembly

Counterpart Institution:

South Eastern European Partnership on Accountancy Development (SEEPAD)

Implementation Date:

April 27 – 30, 2006

Description:

The Republic of Srpska (RS) Accounting and Auditing Association, a local SEEPAD chapter, hosted the General Assembly meeting of SEEPAD and used the opportunity to organize a seminar on Quality Control and Ethics in Accounting. In response to a request from the RS Association, FSVC sponsored a guest speaker to deliver presentations on Bosnia's accounting reforms and moderate proceedings at the Seminar.

Volunteer:

William Coughlan, Independent Accounting Consultant and Member of the Association of Chartered Certified Accountants (ACCA) UK

Results:

The Volunteer discussed issues related to the implementation of the new laws on Accounting and Auditing with participants and introduced them to international standards in ethics and quality control. The enactment of the Law on Accounting and Auditing in 2005 overhauled the entire socialist era accounting and auditing framework in Bosnia. The lack of local experience in IAS and IFRS, and the transfer of oversight authority and professional development for accounting and auditing to professional associations has created significant obstacles for the implementation of the new laws in Bosnia. Attendees became more aware of the institutional and professional developments related to accounting and auditing reforms in Bosnia and in other South Eastern European countries. They also increased their knowledge of quality assurance and ethics in the accounting profession in Bosnia and the region.

1st Quarter**7. Project Name:**

Sponsorship to Seminar on Quarterly National Accounts Statistics

Counterpart Institutions:

Bosnia and Herzegovina Agency for Statistics

Federation of Bosnia and Herzegovina Bureau of Statistics

Republic of Srpska Bureau of Statistics

Implementation Date:

March 5 - 17, 2006

Description:

FSVC sponsored three statisticians from the state and entity-level statistics agencies in BiH to participate in a seminar on Quarterly National Accounts at the *Center of Excellence in Finance* in Ljubljana, Slovenia. Currently national account statistics in BiH are compiled on an annual basis only and are published with a delay of about two years. In an effort to improve the timeliness and quality of statistics collection and analysis, BiH government officials requested assistance to participate in the seminar, taught by IMF Staff, which provided a theoretical foundation for estimating GDP on a quarterly basis, as well as the foundation for GDP estimation using the expenditure approach.

Participants:

- Dijana Mlikota, Senior Advisor, National Accounts, State Level Agency for Statistics
- Dzebo Nisveta, Senior Officer, National Accounts, Federation Agency for Statistics
- Rada Radanovic, National Accounts, Republika Srpska Agency for Statistics

Results:

The seminar presented the 1993 System of National Accounts (SNA), which represents an internationally accepted/harmonized framework for the statistical description of a national economy. During the first week, the seminar attendees reviewed topics that provided a foundation for understanding the entire SNA, including the preconditions that have to be met before establishing such a system. The second week focused on a specific segment of the SNA - the compilation of Quarterly National Accounts statistics (QNA). The topics reviewed during the first week had special relevance for the participants from Bosnia given the undeveloped nature of the statistical systems in BiH. Participants found sessions on expenditure and production approaches for compiling GDP statistics, the measures of price and volume in national accounts statistics, and valuation methodologies for inventory especially valuable. Nineteen officials from BiH, Slovenia, Poland, Bulgaria, Macedonia, Slovakia, and Estonia attended the seminar.

8. Project Name:

Assessment of Public Sector Audit & Control Functions

Counterpart Institution:

USAID Mission in Bosnia and Herzegovina

Implementation Date:

February 26 – March 10, 2006

Description:

FSVC recruited three public sector audit experts to undertake an assessment of the public sector audit capacity in BiH and to make recommendations on how to improve accountability, efficiency and fiscal discipline. Specifically, the volunteers were asked to assess the capacity of Supreme Audit Institutions (SAI) to implement effective audit and oversight of public spending. They also evaluated the capacity of budgetary institutions and public enterprises to conduct internal audit and control. In addition, the Volunteers were expected to highlight any deficiencies in the current legal and regulatory framework for the internal and external audit of public spending and investigate how other donor programs may be able to reinforce efforts to promote transparency, accountability and fiscal discipline.

Volunteers:

Paul Welton, Senior Manager, PricewaterhouseCoopers LLP, United Kingdom

Donna Heivilin, DPA (formerly senior official at the Government Accountability Office (GAO))

Thomas G. Gorman, Deputy State Auditor, Office of the State Auditor, Vermont

Results:

Over a two-week period, three FSVC Volunteers conducted an assessment of public sector audit capacity in BiH. The Volunteers interviewed nearly 30 stakeholder institutions (close to 100 individuals), including the state and entity supreme audit institutions, relevant ministries, parliamentary committees, professional accounting and auditing associations, and donor organizations in BiH. Based upon these interviews and a review of audit documentation, the Volunteers identified weaknesses in both external and internal audit capacity and in the effectiveness of the parliamentary and prosecutorial follow-up systems. The Volunteers presented their preliminary findings, including suggestions for follow up interventions, to USAID and relevant donor institutions while in country. Upon their return, the Volunteers will submit a final report, which will elaborate on initial findings and provide more in-depth recommendations for follow-up technical assistance. The report will be used to design future USAID technical assistance interventions to promote public sector efficiency, transparency, and accountability.

Interviewed institutions include:

1. Supreme Audit Institution of Bosnia and Herzegovina
2. BiH Parliament, House of Peoples—*Committee on Budget & Finance*
3. Central Bank of Bosnia and Herzegovina, *Office of the Internal Auditor*
4. Communications Regulatory Agency (CRA)
5. Audit Office of Federation of Bosnia and Herzegovina (FBiH Supreme Audit Institution)
6. FBiH Ministry of Finance
7. FBiH Parliament, House of Peoples—*Committee on Economics, Finance, & Budget*
8. FBiH Pension Insurance Fund
9. FBiH Association of Accountants and Auditors
10. Supreme Audit Institution of the Republic of Srpska
11. RS Ministry of Finance
12. RS National Assembly—*Committee on Economy & Finance*
13. RS Association of Accountants & Auditors
14. USAID Bosnia and Herzegovina
15. The Swedish National Audit Office (SNAO)
16. Office of the High Representative (OHR)
17. EC Delegation to Bosnia and Herzegovina
18. World Bank, Fiduciary Assessment Team

19. International Monetary Fund (IMF)
20. USAID Tax Administration Modernization Project
21. USAID/SIDA Government Accountability Project
22. Swedish International Development Agency (SIDA)
23. British Embassy to BiH Department for International Development (DFID)
24. Organization for Security and Cooperation in Europe (OSCE Mission to BiH)
25. Transparency International
26. Deloitte d.o.o.
27. SIGMA (OECD & EU)
28. Mr. Liam Coughlan, former Chief of Party on USAID Private Sector Reform Project

9. Project Name:

Development of a Disaster Recovery Plan - Phase II

Counterpart Institution:

Central Bank of Bosnia & Herzegovina

Implementation Date:

November 29, 2005 – January 20, 2006

Description:

At the request of the CBBH Governor, FSVC continued its program of assistance to support development of a comprehensive Disaster Recovery Plan (Business Continuity Plan) for the central bank. During the first phase of assistance, completed in August 2005, FSVC provided on-site technical assistance to define all CBBH critical resources and functions, business continuity procedures, and IT infrastructure required to ensure operational continuity at CBBH under all circumstances. In this second phase of assistance, one of the initial Phase I Volunteers provided expert commentary on the CBBH's draft Disaster Recovery Plan.

Volunteer:

James L. Allen, Management Consultant, Verizon Federal Network Systems LLC (formerly a senior Federal Reserve System official)

Results:

The Volunteer reviewed and commented on the comprehensive BCP drafts, including plans for CBBH Main Units (Sarajevo, Banja Luka, Mostar) and Central Office departments. Final stages of the review were conducted in country in order to allow for discussion of recommendations. The Volunteer recommended that reconciliation procedures used to settle transactions in progress at the time of a systems failure be improved. The Volunteer helped to define and document these procedures using a special template designed for the reconciliation process.

10. Project Name:

Development of a Disaster Recovery Plan - Phase III

Counterpart Institution:

Central Bank of Bosnia & Herzegovina

Implementation Date:

January 15 – 20, 2006

Description:

As a follow-up to earlier phases of assistance to support the development of a comprehensive Disaster Recovery Plan (Business Continuity Plan) for the CBBH (see above), FSVC arranged for two disaster recovery experts, including one who had participated in earlier phases of the program, to travel to Bosnia to help the CBBH test its Disaster Recovery Plan.

Volunteers:

James L. Allen, Management Consultant, Verizon Federal Network Systems LLC (formerly a senior Federal Reserve System official)

Gerald J. Giacciai, Independent Consultant (formerly a senior Federal Reserve System official)

Results:

For Phase III of this program, the Volunteers worked with the CBBH staff to plan and implement a test of the BCP in a simulated emergency situation. The departments performed transactions at an alternate location and walked through the process that they would use to reconcile business after a disaster in order to ensure that all transactions were completed and recorded. Individual tests involved Accounting, Banking, Monitoring and Analysis Departments as well as various sections of the Main Units in Sarajevo, Banja Luka, Mostar, and the Pale Branch. In each case, the objective was to make sure the departments understood the types of issues that could emerge and the appropriate responses needed to ensure that data and transactions were appropriately reconciled. The Volunteers delivered a final report which outlined recommendations on maintaining the BCP over time, as well as additional improvements that could be implemented to make the Plan more comprehensive and robust.

With FSVC's help, the CBBH staff finalized its Business Continuity Plan and submitted it to the CBBH Board of Governors, who then adopted this Plan in March of 2006. In its final form, the BCP defined all critical functions and recovery capabilities of the CBBH and detailed the IT infrastructure needed to ensure operational continuity under various disaster scenarios.

2005**4th Quarter****11. Project Name:**

Commentary: Comparative Assessment of Bank Regulations on Liquidity Risk Management

Counterpart Institution:

Federation of BiH Banking Agency

Implementation Date:

October 1 – December 23, 2005

Description:

FSVC arranged for a team of experts in bank supervision to review BiH regulations on bank liquidity management and compare these with regulations of other regional and similar transition countries.

Volunteers:

Memli Idrizi, Chief inspector, On-site Banking Supervision Department, Bank of Albania

Artan Toro, Chief specialist, Regulation Department, Bank of Albania

Rumen Simeonov, Director, Directorate of Supervision Policy and Methodology, Bulgarian National Bank

Tarik Telačević, Director, Banking Examination Department, Central Bank of Montenegro
Tomas Golda, Chief Banking Supervision Inspector, Banking Regulation and Supervision, Czech National Bank

Branko Sučević, Examiner, On-site Banking Supervision, Banking Supervision Department, Croatian National Bank

Tibor Hren, Deputy Director, Banking Supervision Department, Bank of Slovenia

Results:

FSVC volunteers performed a comparative assessment of relevant legislation and regulations in Bosnia to those in their respective countries, including Albania, Bulgaria, Croatia, Czech Republic, Montenegro, and Slovenia. Reports from each participating country were compiled into a comprehensive summary report, which described the liquidity risk management models used by each country and provided a comparison of the quantitative and qualitative requirements for liquidity risk management. The volunteers also identified some shortcomings in the Bosnian regulations and recommended certain adjustments to strengthen them. These recommendations are currently under review in Bosnia.

12. Project Name:

Consultations on Consolidated Bank Supervision

Counterpart Institution:

Federation of BiH Banking Agency / Republika Srpska Banking Agency

Implementation Date:

November 21 – December 2, 2005

Description:

FSVC was asked to provide in-country support to help strengthen the skill base of Banking Agency examiners related to consolidated supervision, including the preparation and analysis of consolidated financial statements of banking groups and the methodology for on-site examination and off-site analysis.

Volunteer:

Paolo Corradino, Manager, Banking Supervision Department, Banca d'Italia

Results:

Over a two-week period in country, FSVC's Volunteer provided training that included an overview of the institutional framework of banking supervision and Basel Core Principles related to consolidated supervision. During the first week, the Volunteer addressed in detail the mapping and definition of risks in consolidated banking supervision. He also reviewed different aspects of consolidated banking supervision in the context of financial companies within a group and financial conglomerates. Mr. Corradino also examined sections of the draft Law on Banks dealing with consolidated bank supervision and provided comments and recommendations to strengthen it in line with international standards. In addition to this, he presented useful concepts for the development of related prudential regulations. A special one-day session was dedicated to two case studies involving the two largest banking groups in Italy: Banca Intesa (which recently purchased UPI Bank, the fifth largest bank in Bosnia) and HVB-Unicredito (whose subsidiary is the third largest bank in Bosnia). During the second week, Mr. Corradino presented the Bank of Italy model for off-site analysis and on-site examinations of banking groups and financial conglomerates. These methodologies were reviewed from the perspective of the Italian "PATROL" system—the equivalent of the CAMELS rating approach to prudential banking supervision. He also provided a

basic introduction to IAS 39. The workshop was attended by 39 bank examiners from the two entity Banking Supervision Agencies in BiH and 4 staff members of Deposit Insurance Agency, including directors of Sarajevo and Banja Luka branches. Using this information, Agency officials in Sarajevo and Banja Luka are developing prudential regulations for consolidated bank supervision and revising bank examination policies and procedures.

3rd Quarter

13. Project Name:

Disaster Recovery Plan Development - Visit to the National Bank of Poland

Counterpart Institution:

Central Bank of Bosnia & Herzegovina

Implementation Date:

September 26 – 30, 2005

Description:

FSVC arranged for three members of the CBBH/Business Continuity team to visit the Security and IT Departments of the National Bank of Poland (NBP). The visit aimed to educate CBBH staff about the BCP development processes in defining the critical resources and functions, staff roles and codes of conduct, and recovery capabilities as well as the IT infrastructure needed to ensure operational continuity of a central bank in the event of a disaster.

Volunteers:

NBP officials include:

Krzysztof Osicki, Deputy Director, Security Department

Jacek Wisniewski, Chief Specialist, Security Department

Krzysztof Zielinski, Chief Specialist, Security Department

Artur Adamek, Advisor to the President, Office of the President

Maria Galinska, Internal Audit Department

Janusz Szlezak

Bogdan Iwan

Results:

The NBP organized a seminar and a series of presentations for the delegation from the CBBH.

During the seminar, NBP presented its Business Continuity model, from the inception of the Plan (risk assessment and business impact analysis) to the development of full BCP IT configuration.

The presentations covered Strategy for Developing Business Continuity Plans at the NBP and the Practical Aspects of Developing BCP at the NBP. Other presentations included the overview of the organizational structure of the NBP, organization of the IT and Security Departments, payment system back ups, and the role of internal audit in BCP management. NBP also organized a study tour of the Security Department and IT server room at the main NBP building in Warsaw and at the IT back-up site in Zalesie Gorne (40 km from Warsaw).

The CBBH will use the information from the seminar/study tour to develop a similarly integrated plan to manage BCPs in Bosnia. The critical functions and the hierarchy of business process recoveries (recovery time objectives) will be determined based on the guidelines provided by the National Bank of Poland. The structure of the BCP management will also be tailored according to the model of the NBP. The CBBH staff attending this study tour included the Head of the Payment

System, the Deputy Internal Auditor, and the IT Security Manager and the Head of the CBBH BCP development team.

14. Project Name:

Consultations on the Development of the Money Market in Bosnia & Herzegovina,
Phase I

Counterpart Institution:

Central Bank of Bosnia & Herzegovina

Implementation Date:

June 1 – September 1, 2005

Description:

FSVC completed a comprehensive report on short-term and long-term government securities markets in the region, focusing on Serbia-Montenegro, Croatia, and Macedonia.

Volunteers:

Anthony Randazzo, CFA, Regional Director, Financial Services Volunteer Corps
Emil Okanovic, Program Officer, Financial Services Volunteer Corps Bosnia and Herzegovina

Results:

FSVC prepared a report that addressed the type, structure, maturity, and special provisions of long-term and short-term debt instruments issues in these three countries, with a special emphasis on compensation bonds. The report reviewed, in detail, the modalities of securitization of various government liabilities through compensation bonds, including the settlement the claims related to “frozen” foreign currency deposits (FFCD) of citizens in commercial banks in Serbia-Montenegro, Croatia, and Macedonia. Particular information focused on the characteristics of FFCD bonds and the secondary market activity (price, yield, turnover, liquidity, buyers) that has occurred since issuance. Moreover, the study analyzed primary and secondary market activity in short-term government securities, including the characteristics of the securities, the primary market infrastructure, the auction methods, demand and supply conditions, and types of participants. This study has been used to educate the Bosnian team working on the development of the government securities markets in BiH, the Ministries of Finance and the CBBH.

15. Project Name:

Development of a Disaster Recovery Plan for the Central Bank of Bosnia & Herzegovina, Phase I

Counterpart Institution:

Central Bank of Bosnia & Herzegovina

Implementation Dates:

August 8 – 19, 2005

Description:

At the request of the Governor, FSVC program activity focused on assessing the existing system and defining optimal back-up solutions and recovery strategies. Once completed, the support enabled the CBBH to develop, implement, and manage a comprehensive BCP to minimize disruptions to vital operations during an emergency. Follow-on assistance will be provided through the end of 2005.

Volunteers:

Mr. Thomas C. Judd, retired - Independent Management Consultant
Mr. James L. Allen, Management Consultant, EKC Inc.

Results:

FSVC Volunteers worked closely with the CBBH/BCP project team to define critical resources, processes, information flows, and various process- and technology-related interdependencies at the CBBH. Based on information obtained in surveys and interviews, the Volunteers conducted a business impact analysis to develop an appropriate methodology for writing a comprehensive BCP and optimal recovery strategy. The Volunteers evaluated the capacity and adequacy of the current IT/telecommunications infrastructure and made recommendations on improvements to make the IT infrastructure compatible with requirements of a well-functioning and modern information storage, back-up and recovery system. The Volunteers summarized their findings in a final written report for the Governor and provided templates for drafting the Master and the Departmental BCPs of the CBBH.

16. Project Name:

Training in IT Security Examinations – Phase II: Specialized On-the-Job Training

Counterpart Institution:

Federation of BiH Banking Agency / Republika Srpska Banking Agency

Implementation Date:

June 27 – July 8, 2005

Description:

In order to prepare examiners for IT supervision into the regular scope of on-site exams, increasing the capacity of examiners to supervise operational risks, FSVC implemented arranged for an IT examiner to provide 10 days of specialized on-the-job training in IT examinations of banks to a select group of bank supervisors. The training was structured to include an in-depth review of examination methodologies used in Germany and Canada to conduct off-site analysis and on-site IT examinations.

Volunteer:

Andi Kloefer, Manager of the Financial Services Technology Division, Office of the Superintendent of Financial Institutions in Canada (OSFI)

Results:

FSVC's Volunteer presented a comprehensive overview of examination methodologies used by German Bundesbank and Canadian OSFI in conducting IT examinations, and provided copies of standard examination manuals/surveys used by these institutions. The Volunteer also reviewed the regulations and bank examination guidelines developed by the National Banks of Israel and Macedonia, and by the U.S. bank regulators (i.e. FFIEC, FDIC), and provided advice to customize an on-site examination manual for IT inspections, which included sample guidelines that can be used as reference materials for training, staff development, and the development of appropriate regulations.

Following home-country practices, the Volunteer relied on interviews as the primary method for collecting data and conducting the examination. During several interactive exercises, the Volunteer and the participating bank examiners drafted a Request for Information Letter (survey) that is used to assemble pre-examination information. The team also developed a series of examination questionnaires that would serve as a tool for information collection (interviews) and subsequent risk assessment. Each questionnaire was designed specifically for a particular stakeholder, including senior management, IT management, internal audit (IT audit), electronic and card

banking departments, and the user department. A simulated version of a bank IT examination (including on-site interviews) was conducted at Zepter Komerc Banka in Banja Luka.

2nd Quarter

17. Project Name:

Training in IT Security Examinations – Phase I: General Training in IT Supervision

Counterpart Institution:

Federation Banking Agency / Republika Srpska Banking Agency

Implementation Date:

June 16 – 17, 2005

Description:

In an effort to introduce Bosnian bank supervisors to the practice of supervising information technology (IT) risk in commercial banks, FSVC arranged for two IT system examiners from the Croatian National Bank Department of Bank Supervision to organize a seminar on the fundamentals of IT inspection techniques for on-site examiners of the two Banking Agencies in Bosnia and Herzegovina.

Volunteers:

Damir Blazekovic, Head of Information Technology Supervision Division, Specialized On-Site Supervision Department, Croatian National Bank

Antonio Valcic, On-Site Examiner, Department of Supervision, Croatian National Bank.

Results:

The training seminar on the fundamentals of IT supervision attracted some 20 bank examiners from both Banking Agencies. The Volunteers presented the evolution of IT bank supervision in Croatia and how the IT supervision unit within the Croatian National Bank was established. The instructors introduced bank examiners to the common security threats posed to IT systems of commercial banks, reviewed the on-site IT examination supervisory cycle and presented IT examination operations and procedures.

This introductory training was intended as a foundation for specialized training in on-site bank IT examination that will be provided by FSVC next quarter. It will also be used to develop specific guidelines and manuals to be used in future bank IT examinations in BiH. For this purpose, the instructors provided the examiners with formal guidelines and examples of regulations that could be used in the development of the regulatory framework in Bosnia. An additional benefit of this seminar was the establishment of closer relations between the Banking Agencies of BiH and the IT supervision unit of the CNB that will lead to more cooperation in this area in the future.

18. Project Name:

Follow-up Consultations on the Non-observed Economy

Counterpart Institution:

Central Bank of Bosnia & Herzegovina

Implementation Date:

April 11 – 15, 2005

Description:

FSVC arranged for the two Volunteers engaged for the preparation of the study “Estimate of the Non-Observed Economy in Bosnia and Herzegovina,” to return to BiH to present their results as part of an outreach effort to inform stakeholders and policymakers about the size and the structure of the NOE in BiH. In this way, it was hoped that constructive, policy-level discussions aimed at identifying reasons why companies go informal would be held and that possible remedies would be identified and agreed to. The study was undertaken at the request of USAID in order to develop a definitive estimate of NOE in BiH, based on international standards and methodologies, to replace the guesswork and casual estimates that had circulated previously. The Volunteers presented the results of the study to local government officials, international financial institutions and different industry associations. In two separate presentations in Sarajevo and Banja Luka, the Volunteers presented the methodology used to estimate the NOE, its size and structure, the factors behind the NOE in Bosnia and Herzegovina and the macroeconomic policies that could help reduce the “shadow economy.”

Volunteers:

Dr. Roberto Dell'Anno, Research Fellow and Tax Consultant, University of Salerno, Italy
Marje Piirisild, Chief Specialist, State Budget Department, Ministry of Finance, Estonia

Results:

Given the significance of the topic for the future sustainability of BiH as a state, the presentations attracted nearly 150 attendees in total. The USAID Mission Director, Howard Sumka, and the Governor of the Central Bank, Kemal Kozaric, delivered opening remarks. The audiences consisted of local government ministers and officials, the representatives of international financial institutions, the Office of the High Representative, the statistics offices, tax administration, chambers of commerce, and various industry associations.

The presentations not only informed local and international stakeholders about the size and the structure of the NOE in Bosnia and Herzegovina, they also attracted significant media attention. After the presentations, the results of the study reverberated in two major local newspapers, “Dnevni Avaz” and “Oslobodjenje.” The news was also featured in the regional media, including the online edition of the “Banker” magazine in Croatia. The study was also discussed on a popular TV political talk show, “Fakta,” which hosted two separate programs on the subject of the grey economy. Fakta invited the USAID Mission Director, Howard Sumka, to participate as a special guest to present the FSVC study and discuss the results with a panel of several prominent stakeholders.

Study findings, publicized through the Volunteers’ presentations, have also contributed to work of international organizations. The NOE study was recently cited by both the World Bank and the IMF in recent economic reports and publications on Bosnia. In addition, the EBRD, the Statistics Agencies of Bosnia and the Economic Policy Planning Unit of the Council of Ministers requested the study for further research and analysis.

2004**4th Quarter****19. Project Name:**

Third Country Training on Consolidated Supervision

Counterpart Institution:

Federation of Bosnia and Herzegovina Banking Agency

Implementation Date:

November 22 – 26, 2004, Poland

Description:

FSVC sponsored, via a cost sharing arrangement, two FBA examiners to attend a week-long seminar on consolidated bank supervision organized in late November by the National Bank of Poland Training Initiative for Banking Supervision (“TIBS”).

Participants:

Edina Hondo; Off-site department, Tanja Pavlovic; On-site department

Results:

The seminar provided senior FBA examiners an excellent basis for upgrading their skills and expertise in the field of consolidated supervision. The examiners received a comprehensive overview of methodologies, tools, and reporting requirements used for off-site analysis and on-site examination as well as the necessary infrastructure to support effective consolidated supervision. The seminar participants also had the opportunity to share experiences and develop relationships with other supervisors in Central and Eastern Europe. The FBA expects the participants to recommend ways to incorporate best practices learned at the seminar into FBA practices and procedures and to participate actively in the activities of a working group responsible for updating bank regulations in BiH, including provisions on consolidated supervision.

20. Project Name:

Analysis and Strategy for Passive Balance Sheet Resolution for Union Banka

Counterpart Institution:

Federation of Bosnia and Herzegovina Ministry of Finance

Implementation Date:

October 24 – October 30, 2004

Description:

The Assistant Minister of the Federation Ministry of Finance and the CBBH Governor asked FSVC for advice on the methods to address the passive balance sheet of Union Banka, essentially the unresolved liabilities of the bank taken over when Bosnia became a sovereign country from its predecessor parent bank now located in Serbia. FSVC Volunteers were asked to review the financial and legal material related to the bank, review available options to sell Union Banka, and suggest actions to protect the Federation budget from potential liabilities after privatization. While a viable medium sized bank, the failure to recapitalize Union Banka over the past four years by the Ministry of Finance means that it is now in violation of regulatory capital requirements and has consequently failed to be admitted to the deposit insurance scheme, which is causing the bank to lose deposit base and competitive ground. This government bank is the last state-owned bank in Bosnia deemed potentially saleable under privatization laws, but action had been delayed for several years due to these legal and financial uncertainties.

Volunteers:

Elizabeth M. Wood, Senior Managing Director, FSVC

Neal J. Curtin, Partner, Bingham McCutchen LLP

Results:

After reviewing the bank's balance sheet and contingent liabilities, the Volunteers concluded that certain of the bank's outstanding liabilities, particularly payments due to its former parent bank, Jugobanka Belgrade, and off-balance sheet liabilities including unsettled letters of credit and payment guarantees issued on behalf of bank clients, greatly decreased the attractiveness of the bank to potential investors. There appeared to be no available method for resolving the outstanding liabilities related to the former parent under Bosnian law. Therefore, without a Ministry indemnification being provided to any buyer against potential liabilities arising in future from the passive balance sheet, the Volunteers recommended that the potential for successful privatization under the current legal framework was unlikely. At the time of the mission, the Ministry of Finance was not clear if it could legally provide such indemnity, and needed to take additional legal advice.

The Volunteers also evaluated alternative options for the sale of the bank from a legal and financial perspective and recommended that Ministry of Finance officials consider liquidating the bank through a Purchase and Assumption sale technique (purchase of specific assets or assumption of specific liabilities only rather than a sale of the bank stock) with a pre-negotiated buyer. This process would address prospective buyers' liability concerns, minimize the Ministry's potential future financial exposure and yield a timely and potentially financially respectable financial return for the government. The CBBH was anxious for the BiH government to take definitive action on Union Banka, given it was no longer in compliance with mandatory capital regulations, before the state-level, consolidated banking supervision agency is put in place this year given political issues that may later arise.

In early January, FSVC was updated by the Assistant Minister of Finance about progress in the case, and seemingly all of FSVC's recommendations have been adopted and moved on very quickly. The Ministry of Finance has formed a formal three-person senior task force charged with effecting a sale of Union Banka by either means. The Ministry has also determined that it has the legal capacity to issue the types of indemnity required to complete a potential sale of stock under the privatization law in the face of irresolvable passive balance sheet issues. An updated financial review of the passive balance sheet and books of the bank was already done by external auditors to accept recommended adjustments suggested by the Volunteers, and with this, the Federation Banking Agency has been formally asked to reaffirm the bank's solvency as required for a sale under the privatization law. A formal sale under the current privatization law will be attempted once this solvency ruling is given as soon as possible this year, and if that attempt fails to quickly attract buyers, the Ministry now agrees that the alternative of a Purchase and Assumption sale transaction is also legally possible, and would be the immediate next step. There are apparently existing international bank operators in the Bosnia market who may be prepared to buy this bank to increase their scale of operations. The impending and expected successful privatization of the national oil contractor, Energoinvest, is also likely to assist the climate for a near term privatization sale.

21. Project Name:

Review of the Labor Policy Environment

Counterpart Institution:

United States Agency for International Development

Implementation Date:

October 11 – October 22, 2004

Description:

In an effort to support USAID strategy development, FSVC arranged for a labor law specialist to assess the adequacy of the current labor market laws and their impact on SME development. The advisor reviewed entity labor codes and relevant collective agreements to assess the adequacy of the employee protection law, wage setting and collective bargaining provisions and practices for SME development.

Volunteer:

Dr. Matthew W. Finkin, Albert J. Harno Professor of Law, University of Illinois

Results:

After meeting with employer and union representatives, government officers and international advisors, as well as reviewing relevant legal material, the Volunteer concluded that, with few exceptions, current legal codes themselves do not present a major obstacle to SME development. Problems rest instead in the practices that have evolved based on Bosnia's socialist legacy, which lack the flexibility needed to support the needs of a growing SME sector. Examples of current problems include wage setting mechanisms that need to be developed to more closely reflect worker performance. The Volunteer recommended a number of areas where specific actions could improve the responsiveness of the labor market to SME needs. The creation of a separate law governing the minimum wage floor could encourage sector and enterprise level bargaining. Maternity and severance benefits, which now place heavy burdens on employers and depress their ability to respond to economic or technical pressure could also be reviewed and gradually harmonized with practices of transition economies in the region or recent EU accession countries. In order to provide employers the needed flexibility to respond to market changes, the Volunteer recommended that laws governing employee termination be altered to allow for employee layoffs. Consideration should also be given to establishing separate labor chambers to expedite the hearing and resolution of labor disputes. The final report has provided a sound basis for USAID to proceed with its next stage of strategy development for this sector.

22. Project Name:

Estimate of the Informal Sector

Counterpart Institution:

Central Bank of Bosnia and Herzegovina

Implementation Date:

September 26 – October 9, 2004

Description:

Two FSVC Volunteers carried out an independent review of the current CBBH methodology used to estimate the size of the informal sector. The advisors also worked to gather, process, and analyze necessary data in order to make their own estimate of the size of the non-observed economy. In addition to consulting various available reports, FSVC Volunteers interviewed key institutional sources of information, including entity tax administrations and individual researchers.

Volunteers:

Marje Piirisild, Head Statistician, Statistical Office of Estonia

Roberto Dell'Anno, Tax Consultant and Researcher of Non-Observed Economy, University of Salerno, Italy

Results: The FSVC team delivered a final report of findings, estimates and recommendations for future assessments of the non-observed economy. While crucial official data for the informal economy are unavailable, the Volunteers were able to establish a baseline estimate using 2001 data and information from in-country consultations. Based on this, the team used econometric tools to estimate the size of the informal sector in 2002 and 2003 and to create projections for 2004 and 2005. The Volunteers' final report will detail the methodology used to conduct this analysis and will provide the CBBH with the foundations for more accurate estimation techniques. USAID/Sarajevo has informed FSVC that the study will also be used for public education purposes and for the formulation of policies to stimulate formal sector development.

2nd Quarter

23. Project Name:

SME Interventions and Gap Analysis Roundtable

Counterpart Institution:

SME Interventions and Gap Analysis Roundtable Team

Implementation Date:

April 6 – 7, 2004

Description:

FSVC provided an insurance expert from the region to moderate and participate in the Alternative Finance Roundtable in Sarajevo during a two day SME Development Gap Analysis Roundtable organized by USAID.

Volunteer:

Boris Duras, Director of Corporate Sales Department, Allianz Zagreb d.d.

Results:

The Volunteer actively participated in the discussions on the insurance and pension sectors and how they can contribute to SME development in Bosnia and Herzegovina. The Volunteer shared his experience from Croatia and emphasized how the non-bank financial sector can contribute to SME growth. As a result of the findings at the roundtable, the US government will focus its future SME assistance programs on removing SME growth impediments in the legal, regulatory, and policy spheres. In particular, it will work to streamline and harmonize direct taxation, remove barriers associated with business permits, licensing, and inspections, and strengthen the commercial legal framework and implementing capacity of the judiciary.

1st Quarter

24. Project Name:

Follow-Up Consultations on Financial Viability

Counterpart Institution:

Bosnia and Herzegovina Deposit Insurance Agency

Implementation Date:

February 29 – March 13, 2004

Description:

The Volunteer spent two weeks gathering and analyzing information on the BiH economy and the future development of the banking sector. Using this data, the Volunteer was able to update and improve the accuracy of the model by developing more accurate assumptions about the status of the banking sector. The Volunteer also trained the staff on how to use the model to simulate policy changes and understand their impact on the insolvency risk of the deposit insurance fund.

Volunteer:

Peter Hand, Structured Products Analyst, Barclays Global Investors, San Francisco

Results:

The Volunteer analyzed multiple scenarios based on assumptions about external factors such as deposit growth rates and the health of the banking sector as well as policy changes such as premium rates and coverage limits. As a final product, the DIA received a thorough and comprehensive study of its financial viability that will be used as supplemental information for soliciting a credit line for contingencies from bilateral donors. The Volunteer also provided the DIA with policy advice on issues such as the introduction of risk-based premiums and raising the current coverage limit. The financial model is flexible and can now be easily used by the DIA staff for analysis and forecasting purposes as well as key policy considerations.

25. Project Name:

International Investment Conference

Counterpart Institution:

The Panel on Banking – Conference Organization Board

Implementation Date:

February 26 – 27, 2004

Description:

With FSVC assistance, the Volunteers researched and delivered presentations at the First International Investment Conference on the current state of development of the leasing and insurance markets, respectively. The presentations were designed to provide an overview of leasing and insurance industries in BiH, their application in other jurisdictions, and the opportunity for leasing and insurance growth in BiH.

Volunteers:

Jurij Gorisek, Director, Insurance Supervisory Agency of Slovenia

Stephen Hackett, Managing Director, Global Capital Finance, New York

Results:

The Volunteers actively participated in the Conference and helped to facilitate a dialogue on the subject of non-bank financial sector development, in an effort to stimulate interest in investment opportunities in Bosnia and Herzegovina. The presentations generated significant interest from panel participants and proved informative to potential investors and government officials alike.

26. Project Name:

Actuarial Profession Assessment

Counterpart Institution:

Sarajevo Actuarial Association

Implementation Date:

January 26 – 28, 2004

Description:

The actuarial profession in Bosnia and Herzegovina is underdeveloped both in terms of the number of professional actuaries and the quality of their professional education. Two FSVC Volunteers carried out an independent assessment of the actuarial profession in Bosnia and Herzegovina in order to identify the approximate demand for actuaries, determine whether the current actuarial education program can adequately meet this demand, as well as assess how well the program complies with international actuarial certification standards. The advisors interviewed key stakeholders and reviewed the practices of the existing Actuarial Certification Program provided by the Federation Ministry of Finance and the Sarajevo Association of Actuaries.

Volunteers:

Jurij Gorisek, Director, Insurance Supervisory Agency of Slovenia

Mojca Rome, Actuary Advisor, Insurance Supervisory Agency of Slovenia

Results:

The Volunteer team delivered a final report of findings and recommendations, which provided a high level review of the current legal and regulatory framework related to the actuarial profession, including a review of the Sarajevo Actuarial Association Statute and regulations on the conditions for acquiring a licence for performing the tasks of a certified actuary. The team also reviewed the Actuarial School syllabus and reading materials, recommending that that the syllabus be more closely aligned with international standards such as those of the European Actuarial Consultative Group, the umbrella organization for European actuarial associations. The report also proposed the transfer of the Actuarial School under the supervision of a university. The international community will use the report to understand the level of demand for actuaries in the market and how well the current actuarial program addresses the needs of the profession.

2003

4th Quarter

27. Project Name:

Insurance Sector Assessment

Counterpart Institution:

FBiH Insurance Commissioner, RS Ministry of Finance- Insurance Supervisory Unit

Implementation Date:

November 10 – 22, 2003

Description:

FSVC Volunteers conducted an independent, high-level assessment of the insurance sector in order to identify current policy problems and issues. During the study, the Volunteers gathered all pertinent information from the insurance supervisory Agencies, bilateral donors, and a significant sample of insurance companies operating in Bosnia and Herzegovina.

Volunteers:

Marianne Burke

William Lagano, Senior VP, American Modern Insurance Group

Results: The Volunteer team delivered a final report of findings and recommendations which encompassed a review of the legal framework (both current and proposed), a high-level assessment of the existing supervisory capacity, and a summary of the risk management practices found in insurance companies interviewed. The study concluded that the overall experience in all aspects of the insurance sector is relatively low. The existing legislation is highly deficient; the proposed set of laws would provide a relative improvement. As a result of poor legislation and lack of regulatory capacity, there is very little effective supervision of insurance companies in Bosnia and Herzegovina. The report also uncovered unfair trade practices in the compulsory motor third party liability insurance which make it an unattractive line of business. Other deficiencies noted include a lack of investment vehicles for managing assets and underdeveloped risk management practices. Recommendations were developed to remedy existing deficiencies and will be used by the international community and local counterparts as a basis for the development of a future technical assistance strategy for the insurance sector.

28. Project Name: Consultations on the IT Requirements for a Common Banking Database

Counterpart Institution: Central Bank of Bosnia and Herzegovina, Banking Agencies, and Deposit Insurance Agency

Implementation Date: 25 Oct 2003 – 14 Nov 2003

Description: FSVC volunteer team (three volunteers) spent three weeks gathering and analyzing all necessary information on the existing information technology and off-site analysis systems in the Banking Agencies, DIA, and CBBH.

Volunteer: Keith Davies, Curt Faulkner, Ignacio Boixo

Results: The volunteer team provided the Agencies with a final report consisting of a review of existing IT systems, an analysis of available solutions and the recommendation on the optimal information technology structure solution. The study recommended the existing Federation Banking Agency commercial bank reporting and off-site analysis solution to be implemented in the Republika Sprska Banking Agency and the Deposit Insurance Agency. Until differences in reporting methodologies between the Central Bank and the other Agencies are resolved, the Central Bank will not directly participate in this integration. The report also provided the Agencies a detailed implementation plan, a description of duties and responsibilities for each Agency and individuals involved in the project, as well as the training requirements for the recommended solution. During the post-presentation period, the Banking Agencies and the DIA agreed with the recommendations and decided to use the final report as the basis for the implementation process.

3rd Quarter

29. Project Name: Consultations on Compliance with BIS Core Principles

Counterpart Institution: Central Bank of Bosnia and Herzegovina—Payments System Division

Implementation Date: September 3 – September 17, 2003

Description: The FSVC Volunteer assessed the compliance of the BiH national payments system with BIS Core Principles. In an effort to impartially assess the current condition of the BiH payments system, the FSVC Volunteer consulted with the payments system operator, its participants, and other stakeholders.

Volunteers: Leonard Fernelius, President, Fernelius Banking Consultants

Results: The Volunteer delivered a report of findings and recommendations to the CBBH, which concluded that the BiH Payments System is generally compliant with BIS Core Principles, but that deficiencies exist in the legal framework and in the use of the system by participants. In light of these deficiencies, the Volunteer recommended the harmonization of the legal infrastructure of the two entities and the adoption the International Bank Account Number (IBAN) standard. The CBBH intends to use the findings in the final report to make improvements necessary to achieve full compliance with BIS Core Principles. The Volunteer also provided guidance to CBBH officials on how to conduct future compliance assessments independently.

1st Quarter

30. Project Name: Operational and Financial Sustainability Consultations – Entity Banking Agencies

Counterpart Institution: Republika Srpska Banking Agency and Federation Banking Agency

Implementation Date: January 13 – 28, 2003

Description: A team of FSVC Volunteers carried out an independent and objective study of the two Banking Agencies in an effort to identify key technical assistance inputs and policy measures that need to be implemented to ensure their future financial and operational self-sustainability. The Volunteer team examined the supervisory capacity of the two organizations and recommended priorities for technical assistance inputs over the medium term. The team also examined how the Agencies finance themselves, and recommended changes to their organizational structure that would facilitate their long-run independence.

Volunteers: Robert Porter (Team Leader), Independent Consultant; Geary Vance, Independent Consultant; Robert Lyon, former Loan Officer, Federal Reserve Bank of Chicago.

Results: The assessment was utilized primarily as a tool to understand the present banking supervision status and constraints and to prepare the Banking Agencies for their transition to achieving independence from international donor assistance. USAID has used the findings and recommendations in the FSVC report to formulate and fine-tune its conclusive technical assistance program to the Banking Agencies. One of the key recommendations of the Volunteer team was to fully integrate the Banking Agencies with the Central Bank of Bosnia and Herzegovina (CBBH). As a result, the USAID-funded technical assistance program will not only focus on eliminating current operational deficiencies but will also address the necessary long-term structural changes in the Banking Agencies. It is anticipated that improvements to the current structure of the Agencies and their continued institutional development will lead to greater self-sufficiency and more efficient supervision of banks.

31. Project Name: Operational Sustainability Consultations – Deposit Insurance Agency

Counterpart Institution: Deposit Insurance Agency of Bosnia and Herzegovina

Implementation Date: January 12 – 25, 2003

Description: A team of FSVC Volunteers independently and objectively assessed the current operational capacity of the DIA. Upon finishing the assessment, the team recommended, in a prioritized fashion, appropriate technical assistance inputs for the medium term (next 24 months) to remedy existing operational deficiencies. The final report also appraised DIA's financial viability and recommended changes to its organizational structure that would facilitate its long-run independence and self-sustainability.

Volunteers: Keith Seibold (Team Leader), former Regional Director, Dallas Region Division of Supervision, FDIC; Geary Vance, Independent Consultant; Robert Lyon, former Loan Officer, Federal Reserve Bank of Chicago; Robert Porter, Independent Consultant.

Results: The assessment helped both the DIA and USAID to understand the present operational and financial status and constraints of the DIA, and indicated what type of technical assistance will be required to prepare the DIA for independence from international donor assistance. As a result of reported findings and recommendations, USAID formulated its first and only technical assistance program for the DIA. One of the key recommendations was to move the bank liquidation function from its current location in the Banking Agencies to the DIA. If adopted, it is anticipated that these and other operational recommendations will help ensure that the capital of deposit insurance fund is not at risk and that the DIA will become operationally and financially self-sustainable.

2002

32. Project Name: Financial Sustainability Assessment – Graduate Business Degree Program

Counterpart Institution: United States Agency for International Development

Implementation Date: December 9 – 21, 2002

Description: FSVC arranged for two Volunteers to assess the current level of demand for an MBA program and to provide recommendations regarding how such a program should be established.

Volunteers: Dr. John Ahern, Executive Director, Institute for Business and Professional Ethics, DePaul University; Philippe Felsenhardt, former Assistant Director of the Moore School of Business, University of South Carolina

Results: The Volunteers independently assessed and provided recommendations on how to establish a long-term graduate business program in BH. The Volunteers consulted with potential stakeholders and delivered a number of recommendations to USAID, including the establishment of a full-time MBA program delivered in English. The program would be a partnership between a US and a BH university and would have accreditation by the Association to Advance Collegiate Schools of Business (AACSB) as a future goal. Other recommendations focused on the development of a cadre of BH professors through an extensive faculty development program. At the end of their assignment, the Volunteers presented their findings to USAID. The USAID mission decided to fund the establishment of both a full-time and a part-time MBA program in BH through the engagement of a US university.

33. Project Name: Deposit Insurance Fund Growth Projection and Analysis

Counterpart Institution: State Deposit Insurance Agency of Bosnia & Herzegovina

Implementation Date: November 4 – 15, 2002

Description: The Deposit Insurance Agency asked FSVC to prepare a detailed, five-year projection and analysis of its deposit insurance fund. The new Law on Deposit Insurance is expected to increase the number of insured members, but also contribute to some consolidation in the banking sector.

Volunteer: Peter Hand, Structured Products Strategist, Barclays Global Investors

Results: The Volunteer prepared a sophisticated financial model, which analyzed multiple scenarios, based on assumptions about deposit growth rates and the health of the banking sector. As a final product, the DIA received a thorough and comprehensive study that will be used to solicit additional capital from bilateral donors. The Volunteer also provided the DIA with useful guidelines for future reporting requirements as well as a number of policy recommendations. The financial model developed for the analysis is flexible, and can be easily updated by the DIA staff for ongoing analytical and forecasting purposes.